

2. INTRODUCTION

Talbot, Korvola & Warwick, LLP (TKW), under contract to the State of Washington Office of Financial Management (OFM), conducted a performance audit of the Washington State Ferries (WSF) Capital Improvement Program. This report outlines the analysis and conclusions based on our work.

AUDIT PURPOSE AND OBJECTIVES

Project Purpose

The Office of Financial Management, on behalf of the Washington State Legislature, developed the scope of work for this performance audit and initiated a competitive solicitation process for selecting a contractor. Legislation passed during the 2000 session of the Washington State Legislature directed OFM to conduct an audit of the ferry capital operations to determine the following:

... whether the ferry system is acquiring, protecting, and using its resources economically and efficiently; the causes of inefficiencies and uneconomical practices; and whether the ferry system has complied with laws and regulation governing economy and efficiency. This audit shall build on audits performed under the direction of the Joint Legislative Audit and Review Committee on Ferry Capital Operations.

Objectives

To accomplish the stated intent of the project, OFM, in conjunction with TKW, developed the following objectives:

2. Capital Investments Model (Life Cycle Cost Model)

- c. Assess and validate the Ferries' decision-making process/model for capital investments.
- d. Determine/define preservation vs. maintenance.

3. Contracting/Bidding Process

- a. Assess how various state and federal procurement/bidding requirements affect acquiring and preserving assets.
- b. Determine:
 - compliance with applicable rules and regulations,
 - effectiveness,
 - fairness,
 - total costs as compared to other bidders, and
 - timeliness.
- c. Determine current procurement practices used by other entities.

PROJECT APPROACH AND METHODOLOGY

To gain a comprehensive understanding of WSF's contracting practices and Life Cycle Cost Model, we interviewed over 20 individuals from WSF's Budget/Program Development, Contracts/Legal Services, Maintenance, Port Engineering, Terminal Engineering, Terminal Construction, and Vessel Engineering functions. Specific projects were reviewed to determine compliance with applicable laws, rules, and regulations. These projects were chosen based on the following criteria:

- Vessels
 - Contracts let within the last two years
 - One Invitation For Bid (IFB) – New Construction (Jumbo Mark II)
 - One Request For Proposal (RFP) – New Construction (Passenger Only Fast Ferries)
 - One IFB – Preservation (M.V. Yakima)
 - One RFP – Preservation (Evergreen State Class and Elwha Propulsion Control Replacement)
- Terminals
 - Contracts let within the last two years
 - Edmonds Ferry Terminal Overhead Loading and Terminal Building
 - Colman Dock Slip 1 Overhead Loading Construction
 - Clinton Dock (Requested by OFM)

We also evaluated numerous WSF documents and files. Included in this review were applicable federal regulations, state statutes, WSDOT procedures, contract files, statistical information, management reports, and various spreadsheets and other pertinent documents. We also extensively interviewed employees of WSF and other organizations.

Information provided during individual and group interviews became one source for observations found within this report. The information gained from these individuals and from other corroborative sources provided insight into the issues, needs, and expectations surrounding the study, and was invaluable in reaching the conclusions and recommendations presented within this report. However, not all of the issues raised by WSF staff fell within the scope of this project. Where possible, those issues have been addressed through means other than this report.

Another information source included directly observing WSF operations. These operational observations included visits to each project reviewed.

To obtain information on other ferry operations and to gain an understanding of procurement models currently being used, we contacted various entities including:

- United States Navy
- United States Coast Guard
- Clipper Line (Seattle)
- Nantucket SSA
- North Carolina Ferry System
- British Columbia Ferry System
- Alaska Ferry System
- Staten Island Ferry
- International Cruise Industry
- Federal Highway Administration
- WDOT (Highway Division)
- Federal Transit Administration

EVALUATION CRITERIA AND STANDARDS

Conceptually, the best way to determine the efficiency and effectiveness of an organization and its functions is to compare actual practices with both agreed upon standards and specific criteria. However, in many entities, no specific standards exist to allow for meaningful comparison. In those situations, the performance audit team determines specific criteria on which to base efficiency and effectiveness. Criteria that typically apply include:

Public Accountability Criterion

A primary criterion for the responsiveness of a governmental organization to its mission is public accountability. This responsibility has been expressed completely yet succinctly by the Comptroller General, US General Accounting Office, in the Government Auditing Standards, the "Yellow Book," which sets forth public sector evaluation criteria familiar to all federal, state, and local government auditors. This public accountability criterion, an underlying premise of our study approach, states:

Our system of managing public programs today rests on an elaborate structure of relationships among all levels of government. Officials and employees who manage these programs need to render an account of their activities to the public. While not always specified by law, this accountability concept is inherent in the governing process of this nation.

The need for accountability has caused a demand for more information about government programs and services. Public officials, legislators, and citizens want and need to know whether government funds are handled properly and in compliance with laws and regulations. They also want and need to know whether government organizations, programs, and services are achieving their purposes and whether these organizations, programs, and services are operating economically and efficiently.

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Public officials and others entrusted with handling public resources:

... are responsible for applying those resources efficiently, economically, and effectively to achieve the purposes for which the resources were furnished. This responsibility applies to all resources, whether entrusted to public officials or others by their own constituencies or by other levels of government.

... are responsible for complying with applicable laws and regulations. That responsibility encompasses identifying the requirements with which the entity and the official must comply and implementing systems designed to achieve that compliance.

... are responsible for establishing and maintaining effective controls to ensure that appropriate goals and objectives are met; resources are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed.

... are accountable both to the public and to other levels and branches of government for the resources provided to carry out government programs and

services. Consequently, they should provide appropriate reports to those to whom they are accountable.

Efficiency, Effectiveness, and Economy Criteria

The efficiency, effectiveness, and economy of a governmental operation are inherent responsibilities of those charged with its management. The overall "effectiveness" of an organization is the determination of how well predetermined goals and objectives for a particular activity or program are achieved. Effectiveness signifies the result of effort rather than the effort itself. It is sometimes characterized as impact, results, or outcome. Efficiency focuses on the maximization of output at minimal costs or the use of minimal input resources for the achievable output. Economy signifies the acquisition of resources of appropriate quality and quantity at the lowest reasonable cost.

Legal Requirements

Legal requirements include any purpose or goals prescribed by law or regulation. Statutes, rules, and ordinances establish a measure for evaluation.

Prior Years' Performance

Historical information on accomplishments, services provided, time frames, etc. provide the audit team with a basis to determine whether a program or activity is meeting or exceeding expectations.

Performance of Similar Organizations

Information gathered on operations, service delivery methods, results, etc. of similar organizations provide a basis for comparison. Although organizational differences may prohibit direct comparisons, information obtained can assist an audit team with identifying other effective methods to provide services.

In the absence of specific, measurable, and realistic criteria, a performance audit team will assess an organization and its activities using these factors as a baseline. In addition, a variety of criteria based on team members' extensive experience working with governmental and private sector organizations and professional literature are also applied.

AUDIT TEAM PERSPECTIVE

Our team begins each audit with an expectation of governmental excellence, a benchmark that all organizations should have as a primary objective. Holding governmental entities to the highest standards of efficiency and effectiveness serves the best interests of both the citizen and government. When those expectations are not met, we attempt to identify opportunities to move toward an organization's own vision of excellence. However, this vision must be recognized, accepted, and internalized before significant organizational change can occur.

It is for this reason that many of the observations found within this report are *exception-based*. That is, they are oriented toward resolving problems or concerns. Although many aspects of operations are performed efficiently and effectively, the greatest benefits to an organization are typically derived from the identification of methods to achieve excellence.

SCOPE LIMITATIONS

Audit team assessments of efficiency and effectiveness contained within this report are qualitative in nature and rely on documented information. The criteria and standards described above were used extensively throughout this study. Likewise, quantitative and qualitative analyses were undertaken as appropriate to understand the particular issue being

addressed. However, no major cost-benefit, cost-effectiveness, or other comparable quantitative studies were conducted.

This audit specifically excludes any review of the efficiency or effectiveness of WSF daily operations. Specific programs in place to manage ferry personnel, schedule, allocate resources, obtain funding, assess risk, develop strategic plans, provide customer service, set fares, identify travel demand, determine system growth, etc., were not evaluated. However, the systems, policies, procedures, or practices of any program that were found to directly or indirectly impact the capital improvement program are documented.

STANDARDS

This audit was conducted from September - December 2000 and was in accordance with generally accepted government performance auditing standards.

COMPLIANCE

As part of our audit, we examined compliance with pertinent federal regulations and state statutes and administrative rules pertaining to transportation and mass transit. We found Washington State Ferries in compliance with all specific areas reviewed. For those items we did not specifically test for compliance, nothing came to our attention that would indicate significant instances of non-compliance.